TXT e-solutions Group

Half-yearly report

as at 30 June 2018

TXT e-solutions S.p.A.

Registered office, management, and administration:
Via Frigia, 27 - 20126 Milan - Italy
Share capital:
€6,503,125 fully paid-in
Tax code and Milan Business Register number: 09768170152

Corporate bodies

BOARD OF DIRECTORS
Members' term of office expires upon approval of the financial statements as at 31 December 2019:

Alvise Braga Illa	Chairman	(1)
Enrico Magni	Chief Executive Officer	(2)
Marco Edoardo Guida	Chief Executive Officer	(3)
Paolo Matarazzo	Director	(3)
Fabienne Anne Dejean Schwalbe	Independent Director	(4)
Stefania Saviolo	Independent Director	(4)
Valentina Cogliati	Independent Director	(5)

(1) Powers assigned: proxy
(2) Powers assigned: ordinary and extraordinary administration, except for the purchase and sale of property.
(3) Powers assigned: ordinary administration.
(4) Member of the Remuneration Committee, the Risks and Internal Controls Committee and the Related Parties Committee.
(5) Member of the Risks and Internal Controls Committee.

BOARD OF STATUTORY AUDITORS
Members' term of office expires upon approval of the financial statements as at 31 December 2019:

Mario Basilico	Chairman
Luisa Cameretti	Standing auditor
Giampaolo Vianello	Standing auditor
Massimiliano Alberto Tonarini	Alternate auditor
Pietro Antonio Grignani	Alternate auditor
Laura Grimi	Alternate auditor

EXTERNAL AUDITORS EY S.p.A.

INVESTOR RELATIONS E-mail: infofinance@txtgroup.com
Tel.: +39 02 25771.1

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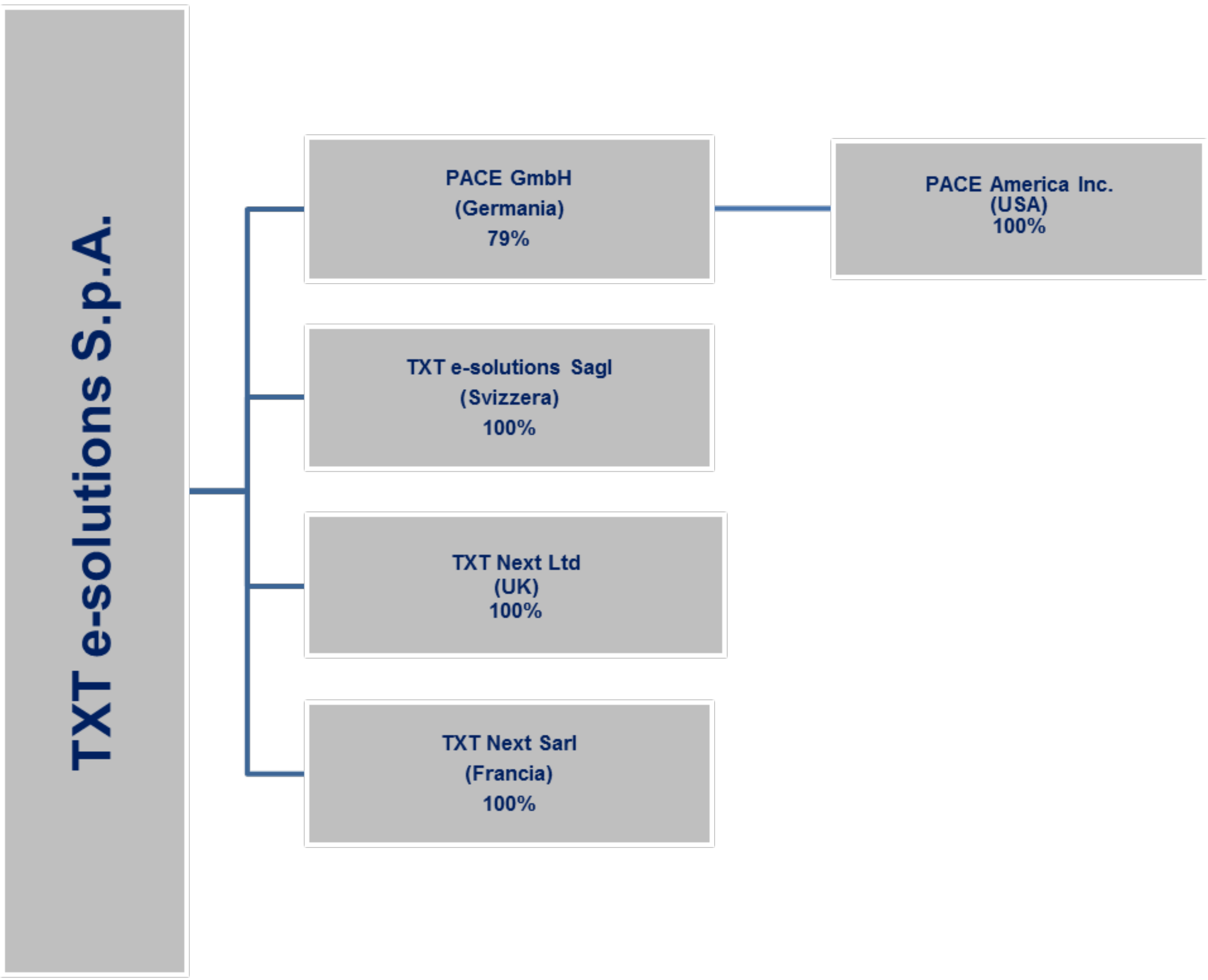
Organisational structure and scope of consolidation



Key data and Directors' Report on Operations as at 30 June 2018

TXT e-solutions Group – Key data

DATI ECONOMICI (Importi in migliaia di Euro)	I SEM 2018	%	I SEM 2018	%	VAR %
RICAVI	**19.006**	**100,0**	**17.919**	**100,0**	**6,1**
EBITDA	**2.069**	**10,9**	**1.901**	**10,6**	**8,8**
UTILE OPERATIVO (EBIT)	**1.197**	**6,3**	**1.558**	**8,7**	**(23,2)**
UTILE NETTO CONTINUING OPERATIONS	**870**	**4,6**	**973**	**5,4**	**(10,6)**
Utile netto Discontinued Operations	-		594		
UTILE NETTO	**870**		**1.567**		

DATI PATRIMONIALI E FINANZIARI (Importi in migliaia di Euro)	30.6.2018	31.12.2017	Var
Capitale immobilizzato	11.541	8.860	2.681
Capitale circolante netto	2.989	6.303	(3.314)
TFR e altre passività non correnti	(2.629)	(2.609)	(20)
Capitale investito	**11.901**	**12.554**	**(653)**
Posizione finanziaria netta	74.030	87.340	(13.310)
Patrimonio netto del gruppo	85.931	99.894	(13.963)

DATI PER SINGOLA AZIONE	30.6.2018	30.6.2017	Var
Numero medio di azioni in circolazione	11.706.755	11.652.117	54.638
Utile netto per azione	0,07	0,13	(0,06)
Patrimonio netto per azione	7,34	2,77	4,57

ALTRE INFORMAZIONI	30.6.2018	31.12.2017	Var
Numero di dipendenti	492	481	11
Quotazione del titolo TXT	10,56	9,64	0,92

(1) I risultati analitici nel primo semestre 2017 si riferiscono alle Continuing Operations in conformità al principio contabile IFRS 5. I risultati sintetici si riferiscono alle attività destinate alla vendita ("Discontinued Operations").

Notes on Alternative Performance Measures

Pursuant to the ESMA guidelines on alternative performance measures ("APMs") (ESMA/2015/1415), endorsed by Consob (see Consob Communication no. 0092543 dated 3 December 2015), it should be noted that the reclassified statements included in this Directors' Report on Operations show a number of differences from the official statements shown in the accounting tables set out in the following pages and in the notes with regard to the terminology and the level of detail.

Specifically, the reclassified consolidated Income Statement introduces the following terms:
• **EBITDA**, which in the official consolidated Income Statement means "Total revenues" net of total operating costs.
• **EBIT**, which in the official consolidated Income Statement means "Total revenues" net of total operating costs, depreciation and amortisation, and impairment of fixed assets.

The reclassified consolidated Balance Sheet was prepared based on the items recognised as assets or liabilities in the official consolidated Balance Sheet, and it introduces the following terms:
• **FIXED ASSETS**, the sum of property, plant and equipment, intangible assets, goodwill, deferred tax assets and liabilities, and other non-current assets.
• **NET WORKING CAPITAL**, the sum of inventories, trade receivables/payables, current provisions, tax receivables/payables, and other current assets/liabilities and sundry current receivables/payables.
• **CAPITAL EMPLOYED**, the algebraic sum of Fixed Assets, Net Working Capital, post-employment benefits, and other non-current liabilities.

These APMs, in line with the data presented in the consolidated income statement and balance sheet in accordance with the recommendations outlined above, were deemed to be significant as they represent parameters that succinctly and clearly depict the Company's equity, financial and economic performance, also through an analysis of comparative data.

Directors' Report on Operations for H1 2018

Dear Shareholders,

In the first six months of 2018, TXT e-solutions focused on the development of its business, mainly in software for the aviation, transport and banking systems sector, with significant opportunities for stable growth, both organically and through profitable acquisitions.

Analysis and assessment were carried out in the first half of the year of the Cheleo acquisition, completed on closing of the transaction on 31 July 2018.

Cheleo is an Italian specialist in the design and development of products and services for lifecycle management of loans by banking and financial intermediaries: initial investigation, credit management and collection, loan package disposal, whether performing or non-performing. The types of loans covered are leases, mortgages, salary-backed loans, factoring and non-performing loans (NPLs). In 2017 it achieved revenues of around €2.8 million with EBITDA (IFRS) of €0.95 million (34% of revenues). The net financial position was positive at €2.48 million as at 21 June 2018, the date of signing of the statement of intent.

The Cheleo acquisition offers TXT the opportunity to work with a highly competent team of staff which share TXT's ethical and professional values in providing products and services of the highest quality. This initial acquisition allows TXT to join the Fintech sector, strengthening its pre-existing Banking and Finance Division activities. At the same time, the growth of internal and external lines of Italian and international business will continue in the Aerospace and Transportation sector.

The main operating and financial results for the first half of 2018 were as follows:

- Revenues amounted to €19.0 million, up 6.1% compared to €17.9 million in first half of 2017. Software revenues from licences, subscriptions and maintenance were €2.4 million, +57.8% compared to the first half of 2017 (€1.5 million), mainly due to the effect of application of the new accounting standard IFRS 15 "Revenue recognition", which this year involves a different recognition profile for revenues from the sale of software licences. Revenues from services amounted to €16.6 million, up 1.4% compared to the first half of 2017 (€16.4 million).

- International revenues amounted to €6.7 million, up 14.8% compared to €5.8 million in the first half of 2017, equal to 35% of the total (33% in 2017).

- Net of direct costs, the Gross Margin came to €8.4 million, up 8.2% compared to the first half of 2017. As a percentage of revenues, it increased from 43.6% to 44.4%.

- EBITDA was €2.1 million, up 8.8% compared to the first half of 2017 (€1.9 million), following significant investments in research and development (+15.0%) and commercial investments (+8.5%). General and administrative costs rose by 3.4% due to higher corporate costs that are no longer apportioned along a wider scope of activities, after the transfer of TXT Retail. These costs were partially offset by the effects of adoption of the new accounting standard IFRS 16, in which rental costs for offices, cars and printers are no longer considered operating costs, but rather as depreciation of the related contracts. The percentage impact on revenues increased from 10.6% to 10.9%.

- Operating profit (EBIT) amounted to €1.2 million, down compared to the first half of 2017 (€1.6 million) as a result of amortisation/depreciation related to adoption of the new accounting standard IFRS 16 “Operating leases” (€0.5 million).

- Net profit stood at €0.9 million, down €0.1 million on the net profit from continuing operations in the first half of 2017 (€1.0 million) due to the effect of higher financial charges from capital losses on liquidity management, more than offset by the lower tax liabilities for the one-off “Patent Box” benefit. Net profit of the first half of 2017 (€1.6 million) included net profit from continuing operations (€1.0 million) and net profit from TXT Retail Division “Discontinued Operations” (€0.6 million).

- The consolidated Net Financial Position as at 30 June 2018 was positive for €74.0 million, compared to €87.3 million as at 31 December 2017, down €13.3 million mainly due to the dividend distribution (€11.7 million), purchase of treasury shares (€1.2 million) and recognition of the payable to lessors of offices, vehicles and printers as a result of the new accounting standard IFRS 16 (€2.9 million). Cash generation from operating activities in the first half of the year remained solid (€2.5 million).

- Consolidated shareholders' equity as at 30 June 2018 amounted to €85.9 million, down €14.0 million compared to €99.9 million as at 31 December 2017. The main reason for the decrease is the distribution of dividends (€11.7 million), purchase of treasury shares (€1.2 million) and application of the new accounting standard IFRS 15 “Revenue recognition”, with a different recognition profile of revenue from the sale of software licences and adjustment to shareholders’ equity (€1.9 million). Net profit for the first half contributed to an increase in shareholders’ equity for €0.9 million.

The Aviation sector is in a phase of rapid consolidation and TXT is well-positioned to take opportunities with regard to work and acquisitions, numbering among its main and most loyal customers some of the biggest players in this consolidation, including Leonardo, Airbus, Boeing, Pilatus, Lufthansa, Safran, Rolls-Royce and Embraer, and many others.

In the first half of 2018, R&D investments, already started in 2017, continued and resulted in the issue of new software solutions in the areas of Flight Operations (Pacelab FPO Cloud), Training for maintenance workers (Pacelab WEAVR) and the configuration of airplane cabins (Pacelab CAB-IN).

Pacelab FPO Cloud is aimed at airlines and allows pilots to optimise their route during flight to reduce fuel consumption and pollution and to avoid turbulence. A pilot study is ongoing with one of the main North American airlines, based on the new cloud-based software, which offers innovative functionalities.

Pacelab WEAVR is an innovative platform that facilitates the development and use of applications for training pilots, crews and maintenance workers, meeting the requirements of aircraft and engine manufacturers as well as training schools in the aviation sector. WEAVR consolidates TXT's experience in the sector, obtained over the years through carrying out numerous projects and complex simulators, and is created using innovating Virtual Reality and Augmented Reality techniques.

Pacelab CABIN is a TXT software product addressed to airplane manufacturers to support the configuration of passenger airplane cabins during the sale phases to airlines. Pacelab CABIN, already in use by the main manufacturers, was extended to allow a Cloud-based collaboration amongst configuration teams operating in different locations and to offer innovating visualisation modalities of cabin configurations through Augmented Reality technologies. Thanks to these new functions, important innovations were introduced in the cabin configuration process, permitting a significant extension of the already existing relationship with a major US company for the cabin design of their main airplanes.

The assets attributable to the TXT Retail Division, sold on 2 October 2017, were classified in the comparative tables of H1 2017 under “Assets and liabilities held for sale - Discontinued Operations”, pursuant to accounting standard IFRS 5. The income statement for the first half of 2017 showed a breakdown of the trend in revenues and expenses with regard to continuing operations, corresponding to the TXT Next Division and without TXT Retail. The net profit (loss) of the TXT Retail Division (“Discontinued Operations”) in the first six months of 2017 is summarised under discontinued operations.

TXT’s results for first half of 2018, compared with the figures for the first half of the previous year related to continuing operations, are presented below:

(€ thousand)	H1 2018	%	H1 2017	%	% Change
REVENUES	**19,006**	**100.0**	**17,919**	**100.0**	**6.1**
Direct costs	10,560	55.6	10,111	56.4	4.4
GROSS MARGIN	**8,446**	**44.4**	**7,808**	**43.6**	**8.2**
Research and Development costs	1,447	7.6	1,258	7.0	15.0
Commercial costs	2,621	13.8	2,416	13.5	8.5
General and Administrative costs	2,309	12.1	2,233	12.5	3.4
GROSS OPERATING PROFIT (EBITDA)	**2,069**	**10.9**	**1,901**	**10.6**	**8.8**
Depreciation, amortisation and impairment	872	4.6	343	1.9	n.s.
OPERATING PROFIT (EBIT)	**1,197**	**6.3**	**1,558**	**8.7**	**(23.2)**
Financial income (charges)	(287)	(1.5)	(153)	(0.9)	87.6
EARNINGS BEFORE TAXES (EBT)	**910**	**4.8**	**1,405**	**7.8**	**(35.2)**
Taxes	(40)	(0.2)	(432)	(2.4)	(90.7)
NET PROFIT FROM CONTINUING OPERATIONS	**870**	**4.6**	**973**	**5.4**	**(10.6)**
Net profit Discontinued Operations (sale of TXT Retail)	-		594		
NET PROFIT (LOSS) FOR THE PERIOD	**870**		**1,567**		

REVENUES AND GROSS MARGINS

Revenues and direct costs for the first half of 2018, compared with the figures for continuing operations in the previous year, are presented below:

(€ thousand)	H1 2018	%	H1 2017	%	% Change
REVENUES	19,006	100.0	17,919	100.0	6.1
Software	2,357	12.4	1,494	8.3	57.8
Services	16,649	87.6	16,425	91.7	1.4
DIRECT COSTS	10,560	55.6	10,111	56.4	4.4
GROSS MARGIN	8,446	44.4	7,808	43.6	8.2

In the first half of 2018, revenues amounted to €19.0 million, up by €1.1 million (+6.1%) compared to €17.9 million in the first half of 2017, due to the good performance of business in the aerospace and aviation market. Revenues from software for licences, subscriptions and maintenance for the first half of 2018 were €2.4 million, up 57.8% on the first half of 2017, and revenues from services were €16.6 million, up 1.4% compared to the first half of 2017.

International revenues account for 35% of total revenues, compared to 33% the prior year's first half, up 14.8%.

The gross margin increased from €7.8 million to €8.4 million, up 8.2% due to a better contribution of revenues from licences which, following the adoption of the new accounting standard IFRS 15 "Revenue recognition", are now more evenly apportioned over the financial year. The impact of the gross margin on revenues improved from 43.6% to 44.4%.

TXT has decades-long experience in the aerospace sector, particularly in on-board software, flight simulators, training systems, flight support systems and advanced manufacturing solutions.

TXT serves a growing number of aerospace companies and airline operators throughout the world, providing them with software and innovative services to design, configure, acquire and operate their airlines and fleets in an economically optimal manner. The main application areas are the preliminary design of airplanes and technical systems, the configuration of airplanes and cabins, economic management of fleets, and the analysis of flying routes and innovative instruments - such as "Electronic Flight Bags" - to improve operating efficiency during flight.

Current customers comprise over 50 major companies, including leading manufacturers of aircraft and engines, airlines, civil and defence operators, and MRO - Maintenance, Repair & Overhaul companies, such as Leonardo (I), Airbus (D and F), Boeing (USA), Pilatus (CH), Reiser (D), CAE (D), Safran Group (F), GE Aviation (USA), COMAC (China), Sukhoi (Russia), Embraer (Brazil), Rolls-Royce (UK), Air France & KLM Engineering (F), Lufthansa (D) and Delta Air Lines (USA).

TXT stands out for its ability to design highly reliable advanced solutions with technology as a key business factor and it specialises in mission critical software and systems, embedded software as well as software for training purposes based on simulations and virtual & augmented reality.

TXT has historically operated in the financial and banking sector as well, where it specialises in Independent Verification & Validation of supporting IT systems. The product range builds on the substantial operating experience acquired by working side-by-side with leading banking companies for over twenty years, combined with in-depth knowledge of the methods and tools to manage software quality, and the testing, assessment and validation of software acquired in the aerospace and aviation sector, a historic precursor in these realms. TXT has strategic partnerships with Microsoft, HP and IBM.

TXT Sense activities continued in the first half of 2018. This start-up was established in 2017 with proprietary technologies for 3D representation and New Augmented Reality, with prospective applications in numerous major sectors of industry, communication and services.

Technologies for simulation with New Augmented Reality have a growing role in the development of complex equipment and systems, including autonomous systems (even robots) using new generation AI technologies (deep learning). Validation of these autonomous systems requires the use of integrated algorithmic simulation systems, assisted by human best practices. In the upcoming future, the techniques at the disposal of TXT will also play a central role in the design and validation of new generation robots (game-based training and validation of non-algorithmic autonomous systems, such as self-driving automobiles).

REVENUES

Research and development costs amounted to €1.4 million in the first half of 2018, up 15.0% compared to €1.3 million in 2017, mainly due to investments in the TXT Sense business, dealing with technologies for 3D representation and Augmented Reality. The impact on revenues increased from 7.0% in the first half of 2017 to 7.6%.

Commercial costs amounted to €2.6 million, up 8.5% compared to the first half of 2017, due to commercial investments in international aerospace and aviation business and in TXT Sense. The impact of commercial costs on revenues rose to 13.8% from 13.5% in the first half of 2017.

General and administrative costs amounted to €2.3 million, up slightly on the first half of 2017 (+3.4%), due to some corporate costs that are no longer apportioned along a wider scope of activities following the transfer of TXT Retail. These costs are partly offset by the effects of the adoption of the new accounting standard IFRS 16, according to which rental costs for offices, cars and printers are no longer considered as operating costs, but rather as depreciation costs of the related contracts (€0.5 million). The impact on revenues decreased from 12.5% in the first half of 2017 to 12.1%.

Gross operating profit (EBITDA) in the first half of 2018 was €2.1 million, up by +8.8% compared to the first half of 2017 (€1.9 million). Profit as a percentage of revenues was 10.9%, compared to 10.6% the prior year.

Operating profit (EBIT) amounted to €1.2 million, down compared to the first half of 2017 (€1.6 million) as a result of amortisation/depreciation related to adoption of the new accounting standard IFRS 16 “Operating leases” (€0.5 million). Amortisation and depreciation on purchased assets were substantially in line with last year (€0.4 million).

Pre-tax profit came to €0.9 million, compared to €1.4 million in the first half of 2017. Financial charges in the first half of the year amounted to €0.3 million, compared to €0.2 million in the first half of 2017, due to capital losses on liquidity investments caused by the strong volatility of bond markets in recent months.

Net profit was €0.9 million, compared to net profit from continuing operations of €1.0 million in the first half of 2017 (-10.6%). The particularly lower tax liabilities in the first half of 2018 (€40 thousand) benefited from the one-off recognition of "Patent Box" tax relief on intercompany software profits in 2015-2017, resulting from an agreement signed with the Tax Authorities (€0.2 million). In the first half of 2017 the taxes amounted to €0.4 million, equal to 31% of the pre-tax profit.

Net profit of the first half of 2017 (€1.6 million) included net profit from continuing operations (€1.0 million) and net profit from TXT Retail Division "Discontinued Operations" (€0.6 million).

CAPITAL EMPLOYED

As at 30 June 2018, Capital Employed totalled €11.9 million, down by €0.7 million compared to 31 December 2017 (€12.6 million), mainly due to a decrease in net working capital (-€3.3 million) and an increase in fixed assets (+€2.7 million).

The table below shows the details:

(€ thousand)	30.6.2018	31.12.2017	Change
Intangible assets	7,151	7,332	(181)
Net property, plant and equipment	3,657	793	2,864
Other fixed assets	733	735	(2)
Fixed assets	**11,541**	**8,860**	**2,681**
Inventories	3,178	2,528	650
Trade receivables	9,736	14,681	(4,945)
Sundry receivables and other short-term assets	2,664	2,533	131
Trade payables	(704)	(1,341)	637
Tax payables	(1,254)	(1,052)	(202)
Sundry payables and other short-term liabilities	(10,631)	(11,046)	415
Net working capital	**2,989**	**6,303**	**(3,314)**
Post-employment benefits and other non-current liabilities	**(2,629)**	**(2,609)**	**(20)**
Capital employed	**11,901**	**12,554**	**(653)**
Group shareholders' equity	85,931	99,894	(13,963)
Net financial position (Cash)	(74,030)	(87,340)	13,310
Sources of financing	**11,901**	**12,554**	**(653)**

Intangible assets decreased from €7.3 million to €7.2 million, due to amortisation for the year on the intellectual property rights on software and on the customer portfolio of the Pace acquisition.

Property, plant and equipment of €3.7 million increased by €2.9 million compared to 31 December

2017 (€0.8 million), due to the voluntary early adoption of the new accounting standard IFRS 16 from 1 January 2018. The capitalised amount corresponds to the sum of all residual instalments of the related rental and lease agreements (offices, cars and printers). Investments in servers and computers during the first half of 2018 (€0.4 million) were essentially in line with the depreciation amounts for the period (€0.4 million).

Other fixed assets amounted to €0.7 million and comprise deferred tax assets, unchanged compared to 31 December 2017.

Net working capital decreased by €3.3 million, from €6.3 million as at 31 December 2017 to €3.0 million as at 30 June 2018. The primary cause of the reduction in working capital is the decrease in receivables due from customers (€4.9 million) as a result of effective credit collection action with major Italian customers in the aerospace and aviation sector.

The other main changes in net working capital refer to the increase in inventories for work in progress for orders not yet invoiced to customers (€0.6 million), the decrease in trade payables (€0.6 million) and the decrease in sundry payables and other short-term liabilities (€0.4 million) due to the payment of annual bonuses to employees. Tax payables increased by €0.2 million due to allocations related to profit for the half-year.

Liabilities arising from post-employment benefits of Italian employees and other non-current liabilities of €2.6 million were substantially unchanged compared to those at the end of 2017.

Consolidated shareholders' equity as at 30 June 2018 amounted to €85.9 million, down €14.0 million compared to €99.9 million as at 31 December 2017. The main reason for the decrease is the distribution of dividends (€11.7 million), purchase of treasury shares (€1.2 million) and application of the new accounting standard IFRS 15 “Revenue recognition”, with a different recognition profile of revenue from the sale of software licences. Revenues already considered in previous years were recalculated according to the new standard, cumulatively adjusting shareholders’ equity (€1.9 million). Net profit for the first half contributed to an increase in shareholders’ equity for €0.9 million.

The consolidated Net Financial Position as at 30 June 2018 was positive for €74.0 million, compared to €87.3 million as at 31 December 2017, down €13.3 million mainly due to the dividend distribution (€11.7 million) and the purchase of treasury shares (€1.2 million). The strong cash generation from operations in the first half (€2.5 million) was partially absorbed by the recognition of payables to lessors for offices, cars and printers in accordance with the new accounting standard IFRS 16 (€2.9 million).

Pursuant to Consob communication dated 28 July 2006 and in compliance with the structure envisaged by the CESR's recommendation dated 10 February 2005, “Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses”, it is noted that the TXT e-solutions Group's net financial position as at 30 June 2018 is as follows:

(€ thousand)	30.6.2018	31.12.2017	Change
Cash and cash equivalents	9,103	86,527	(77,424)
HFT securities at fair value	69,583	0	68,583
Short-term financial receivables	-	3,156	(3,156)
Current financial liabilities	(664)	(675)	11
Short-term financial resources	**78,022**	**89,008**	**(11,986)**
Non-current financial payables - Lessors IFRS 16	(2,312)	-	(2,312)
Other non-current financial liabilities	(1,680)	(1,668)	(12)
Non-current financial liabilities	(3,992)	(1,668)	(2,324)
Net Available Financial Resources	**74,030**	**87,340**	**(13,310)**

The Net Financial Position as at 30 June 2018 is detailed as follows:

- Cash and cash equivalents of €9.1 million are mainly in Euros, held with major Italian banks.
- HFT securities at fair value of €69.6 million are composed of investments in partial return multisegment insurance funds (€49.9 million) and in bond and absolute return funds with a medium-low risk profile (€19.7 million).
- Short-term financial receivables, zero as at 30 June 2018 and €3.2 million as at 31 December 2017, referred to the contractual payment for net working capital price adjustment agreed with Aptos collected at the beginning of 2018.
- Current financial liabilities as at 30 June 2018 amounted to €0.7 million and refer to the current portion of payables for the payment of rentals and lease instalments for offices, cars and printers including all amounts up to expiry of the related contracts (“Lessors – IFRS 16”), following adoption of the new accounting standard. As at 31 December 2017, the payable - essentially for the same amount - instead referred to the amount payable to partners for financed research projects.
- Non-current financial payables - Lessors IFRS 16 as at 30 June 2018 amounted to €2.3 million and refer to the medium/long-term portion of payables for the payment of rentals and lease instalments for offices, cars and printers including all amounts up to expiry of the related contracts (“Lessors – IFRS 16”), following adoption of the new accounting standard.
- The non-current financial liabilities of €1.7 million refer to the estimated outlay for exercise of the put/call option in 2020-2021 relating to the Pace acquisition.

Q2 2018 ANALYSIS

Analysis of the operating results for the second quarter of 2018, compared with those for continuing operations in the second quarter of the previous year, are presented below:

(€ thousand)	Q2 2018	%	Q2 2017	%	% Change
REVENUES	**9,609**	**100.0**	**8,960**	**100.0**	**7.2**
Direct costs	5,397	56.2	5,167	57.7	4.5
GROSS MARGIN	**4,212**	**43.8**	**3,793**	**42.3**	**11.0**
Research and Development costs	735	7.6	643	7.2	14.3
Commercial costs	1,393	14.5	1,239	13.8	12.4
General and Administrative costs	1,198	12.5	1,121	12.5	6.9
GROSS OPERATING PROFIT (EBITDA)	**886**	**9.2**	**790**	**8.8**	**12.2**
Depreciation, amortisation and impairment	446	4.6	164	1.8	n.s.
OPERATING PROFIT (EBIT)	**440**	**4.6**	**626**	**7.0**	**(29.7)**
Financial income (charges)	(304)	(3.2)	21	0.2	n.s.
EARNINGS BEFORE TAXES (EBT)	**136**	**1.4**	**647**	**7.2**	**(79.0)**
Taxes	192	2.0	(190)	(2.1)	n.s.
NET PROFIT FROM CONTINUING OPERATIONS	**328**	**3.4**	**457**	**5.1**	**(28.2)**
Net profit Discontinued Operations (sale of TXT Retail)	-		472		
NET PROFIT (LOSS) FOR THE PERIOD	**328**		**929**		

Performance compared to the second quarter of the previous year was as follows:

- Net revenues amounted to €9.6 million, up 7.2% compared to the second quarter of 2017 (€9.0 million). Software, subscriptions and maintenance revenues were €1.2 million, +61.1% compared to the second quarter of 2017 (€0.8 million), mainly due to the effect of application of the new accounting standard IFRS 15 “Revenue recognition”, which this year involves a different recognition profile for revenues from the sale of software licences. Revenues from services amounted to €8.4 million, up 2.3% compared to the second quarter of 2017 (€8.2 million).
- The gross margin for the second quarter of 2018 amounted to €4.2 million, +11.0% over the second quarter of 2017 (€3.8 million). The percentage impact on revenues increased from 42.3% to 43.8%.
- EBITDA in the second quarter of 2018 was €0.9 million, up 12.2% compared to the second quarter of 2017 (€0.8 million), following significant investments in research and development (+14.3%) and commercial investments (+12.4%). General and administrative costs maintained their impact on revenues (12.5%) due to certain corporate costs that are no longer apportioned along a wider scope of activities, after the transfer of TXT Retail. These costs are partially offset by the effects of adoption of the new accounting standard IFRS 16, in which rental costs for offices, cars and printers are no longer considered operating costs, but rather as depreciation of the related contracts. Profit as a percentage of revenues in the second quarter of 2018 was 9.2%, compared to 8.8% in the previous year.
- EBIT (Operating profit) amounted to €0.4 million, down compared to the second quarter of 2017 (€0.6 million) as a result of amortisation/depreciation related to adoption of the new

accounting standard IFRS 16 “Operating leases” (€0.3 million).

- Pre-tax profit was €0.1 million, compared to €0.6 million in the second quarter of 2017, due to capital losses on liquidity investments caused by strong volatility of the bond markets (€0.3 million).
- Net profit was €0.3 million, compared to net profit from continuing operations of €0.4 million in the second quarter of 2017 (-28.2%). The tax income of €0.2 million is essentially due to the one-off recognition of “Patent Box” tax relief on intercompany software profits in 2015-2017, resulting from the agreement signed with the Tax Authorities. In the second quarter of 2017 the taxes amounted to €0.2 million, equal to 29% of the pre-tax profit.
- Net profit of the second quarter of 2017 (€0.9 million) included net profit from continuing operations (€0.4 million) and net profit of the TXT Retail Division “Discontinued Operations” (€0.5 million).

EMPLOYEES

At 30 June 2018, there were 492 employees, with an increase of 11 employees compared to 481 as at 31 December 2017, due to growth in business activities. As at 30 June 2017, there were 474 employees within the scope of activities of continuing operations.

TXT SHARE PERFORMANCE AND TREASURY SHARES

In the first half of 2018, the TXT e-solutions share price reached an official high of €13.48 on 2 May 2018 and a low of €9.33 on 2 February 2018. As at 30 June 2018 the share price was €10.56, up by +10% compared to the beginning of the year.

Average daily trade volumes in the first half of 2018 amounted to 81,600 shares, a strong improvement on the daily average of 46,300 shares in 2017.

As at 30 June 2018, 1,363,651 treasury shares were held (1,268,321 as at 31 December 2017), accounting for 10.48% of shares outstanding, and were purchased at an average price of €2.80 per share. During the first half of 2018, 135,568 shares were purchased at an average price of €10.42 and 40,238 shares were assigned to employees who exercised their Stock Options at the predetermined price of €5.50. As at 30 June 2018, all options assigned to employees had been exercised.

In order to provide regular updates on the Company, an email-based communication channel is operational (txtinvestor@txtgroup.com). Everyone can sign up for this service in order to receive, in addition to press releases, specific communications to Investors and Shareholders.

On 16 March 2018, TXT was informed that the entire equity investment in TXT e-solutions S.p.A., owned by E-business Consulting S.A. and equal to 25.62% of the share capital, had been transferred to Laserline S.p.A. based on a transfer agreement. Laserline S.p.A. is a company in which Enrico Magni directly and indirectly holds a 100% stake.

On 19 April 2018, the Shareholders’ Meeting appointed Enrico Magni and Valentina Cogliati (independent director) as Directors with a tenure until approval of the financial statements as at 31 December 2019, replacing Teresa Cristiana Naddeo and Andrea Lanciani.

On 10 May 2018, the Board of Directors appointed Enrico Magni as Chief Executive Officer and granted the two Chief Executive Officers, Enrico Magni and Marco Guida, the ordinary and extraordinary powers of administration until this point delegated to the Chairman, Alvise Braga Illa.

The Board of Directors confirmed the requirements of independence of Valentina Cogliati; appointed Stefania Saviolo as Lead Independent Director; appointed Fabienne Schwalbe (Chairman), Stefania Saviolo and Valentina Cogliati as members of the Risks and Internal Controls Committee; confirmed the Remuneration Committee, made up by Stefania Saviolo (Chairman) and Fabienne Schwalbe; confirmed the Related Parties Committee, made up by Fabienne Schwalbe (Chairman) and Stefania Saviolo.

The Shareholder's Meeting held on 19 April 2018 examined and approved the 2017 financial statements and resolved on the distribution of a €1.00 dividend per share, an increase compared to the €0.30 dividend per share in 2017. The dividend was paid for each outstanding share, excluding treasury shares, starting from 9 May 2018, with record date 8 May 2018 and ex-dividend date 7 May 2018. Total dividends therefore amounted to €11.7 million, paid in relation to 11.7 million shares. The Shareholders' Meeting renewed the authorisation to purchase treasury shares for a period of 18 months of up to 20% of the share capital.

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

On 31 July 2018, a contract was signed for the acquisition of Cheleo S.r.l. (www.cheleo.it), an Italian specialist in the design and development of products and services for lifecycle management of loans by banking and financial intermediaries.

The transaction will allow TXT to significantly expand its customers target and likewise its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

In 2017, Cheleo achieved revenues of around €2.8 million with EBITDA (IFRS) of €0.95 million (34% of revenues). Both revenues and EBITDA are forecast to rise in 2018 (+25%). The Net Financial Position (NFP) as at 21 June 2018 was positive at €2.48 million.

The acquisition price for 100% of Cheleo was agreed between the parties as €10 million, including NFP, subject to closing adjustments as necessary. The Company will pay 60% of this amount in cash, from available funds, and 40% from treasury shares held. In addition, an earn-out will be recognised to the managing partners, Bruno Roma and Flavio Minari, who will continue to operate as Cheleo directors, based on the EBITDA performance of Cheleo in 2019.

On closing, 51% of Cheleo was acquired and a put/call contract was signed with Laserline for the remaining 49% of the capital, to be exercised at the same terms in the period 1-31 January 2019.

Lastly, it should be remembered that the majority of Cheleo share capital is held, indirectly through Laserline S.p.A., by Enrico Magni, the relative majority shareholder and Chief Executive Officer of TXT and consequently a related party in the transaction. All the procedures and fairness checks for corporate transactions with related parties were therefore implemented, including the publication of a disclosure.

The company is striving to achieve a growth in internal and external lines, as envisaged in the already mentioned business plans, while focusing on sectors using high-intensity innovative software and with a business model including integrated services with high added value. In view of enhancing TXT's innovating technologies and management capacity, the business plan envisages to invest the remarkable amount of liquidity in new acquisitions, combined with the already owned treasury shares.

In the third quarter of 2018, the company expects a positive and organic growth in revenue and profitability essentially in line with the previous year. The acquisition policy targeting the Transport and Fintech sectors will continue.

Manager responsible for preparing	Chairman of the Board of Directors
corporate accounting documents	
Paolo Matarazzo	Alvise Braga Illa

Milan, 2 August 2018

Condensed consolidated half-yearly financial statements

as at 30 June 2018

Consolidated Balance Sheet

ASSETS	Notes	30.06.2018	Of which with related parties	31.12.2017	Of which with related parties
NON-CURRENT ASSETS					
Goodwill	6.1	5,369,231		5,369,231	
Intangible assets with a finite useful life	6.2	1,781,333		1,962,454	
Intangible assets		**7,150,564**		**7,331,685**	
Property, plant and equipment	6.3	3,656,673		793,444	
Property, plant and equipment		**3,656,673**		**793,444**	
Sundry receivables and other non-current assets	6.4	73,766		75,173	
Deferred tax assets	6.5	1,203,501		659,656	
Other non-current assets		**1,277,267**		**734,828**	
TOTAL NON-CURRENT ASSETS		**12,084,504**		**8,859,957**	
CURRENT ASSETS					
Period-end inventories	6.6	3,178,329		2,527,917	
Trade receivables	6.7	9,736,292		14,680,812	
Sundry receivables and other current assets	6.8	2,663,902		5,690,021	
HFT securities at fair value	6.9	69,583,088		0	
Cash and cash equivalents	6.10	9,103,268		86,527,488	
TOTAL CURRENT ASSETS		**94,264,879**		**109,426,238**	
TOTAL ASSETS		**106,349,383**		**118,286,195**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes		Of which with related parties		Of which with related parties
SHAREHOLDERS' EQUITY					
Share capital		6,503,125		6,503,125	
Reserves		13,253,706		15,144,014	
Retained earnings (accumulated losses)		65,847,865		9,691,188	
Profit (loss) for the year		869,941		68,555,495	
TOTAL SHAREHOLDERS' EQUITY	7.1	**86,474,637**		**99,893,822**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	7.2	3,991,831		1,688,023	
Employee benefits expense	7.3	2,628,825	1,143,467	2,589,776	1,104,717
Deferred tax provision	6.5	460,102		503,014	
TOTAL NON-CURRENT LIABILITIES		**7,080,758**		**4,780,813**	
CURRENT LIABILITIES					
Current financial liabilities	7.4	663,607		674,861	
Trade payables	7.5	704,685		1,341,308	
Tax payables	7.6	794,084		548,642	
Sundry payables and other current liabilities	7.7	10,631,613	86,125	11,046,750	288,750
TOTAL CURRENT LIABILITIES		**12,793,989**		**13,611,560**	
TOTAL LIABILITIES		**19,874,747**		**18,392,373**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**106,349,384**		**118,286,195**	

Income Statement

	Notes	30.06.2018	Of which with related parties	30.06.2017	Of which with related parties
Revenues and other income		19,005,646		17,919,000	
TOTAL REVENUES AND OTHER INCOME	**8.1**	**19,005,646**		**17,919,000**	
Purchase of materials and external services	**8.2**	(2,996,198)		(3,190,302)	
Personnel costs	**8.3**	(13,818,456)	(583,414)	(12,476,119)	(1,237,562)
Other operating costs	**8.4**	(122,373)		(351,579)	
Depreciation and amortisation/Impairment	**8.5**	(871,251)		(343,129)	
OPERATING PROFIT (LOSS)		**1,197,369**		**1,557,871**	
Financial income (charges)	**8.6**	(287,147)		(152,747)	
EARNINGS BEFORE TAXES		**910,221**		**1,405,124**	
Income taxes	**8.7**	(40,281)		(432,155)	
NET PROFIT (LOSS) FOR THE PERIOD		**869,941**		**972,969**	
Net profit from Discontinued Operations	**13**	0		594,365	
NET PROFIT (LOSS) FOR THE PERIOD (Group)		**869,941**		**1,567,334**	
Net earnings per share		0.07		0.13	

Consolidated Statement of Comprehensive Income

	30.06.2018	30.06.2017
NET PROFIT (LOSS) FOR THE PERIOD	**869,941**	**1,567,334**
Foreign currency translation differences - foreign operations	304,143	(260,166)
Total items of other comprehensive income that will be subsequently reclassified to profit/(loss) for the year net of taxes	**304,143**	**(260,166)**
Defined benefit plans actuarial gains (losses)	1,278	30,116
Total items of other comprehensive income that will not be subsequently reclassified to profit/(loss) for the year net of taxes	**1,278**	**30,116**
Total profit/(loss) of Comprehensive Income net of taxes	**305,421**	**(230,050)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,175,362**	**1,337,284**

Statement of Cash Flows

	H1 2018	H1 2017
Profit/loss from continuing operations	869,941	972,969
Profit/loss from discontinued operations	-	594,365
Net profit (loss) for the period	**869,941**	**1,567,334**
Non-monetary costs	-	161,925
Non-monetary interest	8,146	-
Change in fair value of monetary instruments	416,912	-
Current taxes	245,442	174,833
Change in deferred taxes	(42,917)	(353,901)
Depreciation and amortisation, impairment and provisions	871,346	684,854
Cash flows from (used in) operating activities (before change in working capital)	**2,368,870**	**2,235,045**
(Increases)/decreases in trade receivables	7,970,638	4,113,072
(Increases)/decreases in inventories	(650,412)	(785,218)
Increases/(decreases) in trade payables	(636,623)	(346,519)
Increases/(decreases) in other assets and liabilities	(2,325,948)	(1,156,535)
Increases/(decreases) in post-employment benefits	37,771	(1,563)
Change in operating assets and liabilities	4,395,426	1,823,237
Income taxes paid	-	
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**6,764,296**	**4,058,282**
Increases in property, plant and equipment	(153,679)	(432,274)
Increases in intangible assets	(18,880)	(19,830)
Net cash flow from acquisition/assignment	815	-
Increases/(decreases) in other assets and liabilities	(70,000,000)	-
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	**(70,171,744)**	**(452,104)**
Increases/(decreases) in financial payables	(1,097,302)	(312,753)
Distribution of dividends	(11,709,799)	(3,495,636)
Other changes in equity	-	-
(Purchase)/Sale of treasury shares	(1,191,755)	-
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**(13,998,856)**	**(3,808,389)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(77,406,304)**	**(202,211)**
Effect of exchange rate changes on cash flows	(17,916)	(12,348)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**86,527,488**	**7,570,479**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**9,103,268**	**7,355,920**
Assets acquired that did not generate cash flows (initial recognition IFRS 16)	(3,381,710)	-
Liabilities acquired that did not generate cash flows (initial recognition IFRS 16)	3,381,710	-

Statement of Changes in Equity as at 30 June 2018

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva di traduzione	Utili a nuovo	Utile (perdita) del perido	Totale patrimonio netto (Gruppo)
Saldi al 31 Dicembre 2017	**6,503,125**	**1,005,000**	**12,136,607**	**1,911,444**	**140,667**	**1,164,184**	**(913,844)**	**(300,045)**	**9,691,188**	**68,555,495**	**99,893,821**
Utile al al 31 Dicembre 2017		295,625			(140,667)	(1,164,184)		327,517	69,237,204	(68,555,495)	-
Rettifica per adozione IFRS15									(1,370,729)		(1,370,729)
Distribuzione dividendi									(11,709,799)		(11,709,799)
Acquisto azioni proprie			(1,191,755)								(1,191,755)
Attualizzazione TFR							(1,278)				(1,278)
Delta cambi								(15,565)			(15,565)
Utile al 30 giugno 2018										869,941	869,941
Saldi al 30 Giugno 2018	**6,503,125**	**1,300,625**	**10,944,852**	**1,911,444**	**-**	**-**	**(915,122)**	**11,907**	**65,847,864**	**869,941**	**86,474,635**

	Capitale sociale	Riserva legale	Riserva da sovrapprezzo azioni	Avanzo di fusione	First time application	Stock options	Differenze attuariali TFR	Riserva di traduzione	Utili a nuovo	Utile (perdita) del perido	Totale patrimonio netto
Saldi al 31 Dicembre 2016	**6,503,125**	**850,000**	**11,796,405**	**1,911,444**	**140,667**	**921,297**	**(996,939)**	**(531,731)**	**8,133,126**	**5,555,363**	**34,282,757**
Utile al al 31 Dicembre 2016		155,000							5,400,363	(5,555,363)	-
Acc.to piano Stock Grant						242,888					242,888
Distribuzione dividendi									(3,495,636)		(3,495,636)
Vendita azioni proprie			651,816								651,816
Acquisto azioni proprie			(311,614)								(311,614)
Attualizzazione TFR							(18,097)				(18,097)
Altri movimenti							101,191				101,191
Delta cambi								231,686	(346,665)		(114,979)
Utile al 31 dicembre 2017										68,555,495	68,555,495
Saldi al 31 dicembre 2017	**6,503,125**	**1,005,000**	**12,136,607**	**1,911,444**	**140,667**	**1,164,185**	**(913,845)**	**(300,045)**	**9,691,188**	**68,555,495**	**99,893,821**

NOTES TO THE FINANCIAL STATEMENTS

1. Group's structure and scope of consolidation

The Parent Company TXT e-solutions S.p.A. and its subsidiaries operate both in Italy and abroad in the IT sector, and provide software and service solutions in extremely dynamic markets that require advanced technological solutions.

The table below shows the companies included in the scope of consolidation under the line-by-line method as at 30 June 2018 (see also the organisational chart in the section “Organisational structure and scope of consolidation”):

Company name of the subsidiary	Currency	% holding	Share capital
PACE GmbH	EUR	100%	295,000
PACE America Inc.	USD	100%	10
TXT e-solutions SagL	CHF	100%	40,000
TXT NEXT Sarl	EUR	100%	100,000
TXT NEXT Ltd	GBP	100%	100,000

TXT e-solutions Group’s consolidated financial statements are presented in Euro. Here below are the foreign exchange rates used for translating the amounts expressed in foreign currency of the subsidiaries into Euro:

- Income statement (average exchange rate in the year)

Currency	30.06.2018	30.06.2017
British Pound (GBP)	0.8797	0.8601
US Dollar (USD)	1.2108	1.0825
Swiss Franc (CHF)	1.1697	1.0764

- Balance sheet (exchange rates as at 30 June 2018 and 31 December 2017)

Currency	30.06.2018	31.12.2017
British Pound (GBP)	0.8860	0.8872
US Dollar (USD)	1.1658	1.1993
Swiss Franc (CHF)	1.1569	1.1702

2. Basis of preparation of the consolidated financial statements

The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at the date of drafting these financial statements, as well as with the implementing measures for Article 9 of Italian Legislative Decree no. 38/2005 and with any other applicable provisions and Consob regulations on financial statements. This half-yearly report was prepared, regarding both form and content, in accordance with the provisions contained in IAS 34 “Interim Financial Reporting” and in accordance with International Accounting Standards (“IAS - IFRS”) issued by the International Accounting Standards Board and adopted by the EU, including all the interpretations of the IFRS Interpretations Committee, previously called Standing Interpretations Committee (“SIC”).

The half-yearly report as at 30 June 2018 consists of the consolidated financial statements and the reclassified consolidated financial statements whose form and content are consistent with the financial statements for the year 2017. The condensed consolidated half-yearly financial statements do not therefore include all the information required for the annual financial statements and should be read together with the consolidated financial statements for the year ended 31 December 2017. They have been prepared based on accounting records as at 30 June 2018 and on a going concern basis, which is confirmed by the company's financial and operating indicators. As for further information relating to the nature of the company's activities, business areas, operations and outlook, reference should be made to the Directors' Report on Operations.

The accounting policies applied in preparing the financial statements, as well as the composition of, and changes in, individual items, are illustrated below.

All amounts are expressed in Euro, unless otherwise indicated.

The publication and release of this report were approved by the Board of Directors' Meeting held on 2 August 2018.

3. Accounting standards and interpretations applied from 1 January 2018

The accounting standards adopted in preparing the condensed consolidated half-yearly financial statements are consistent with those used in drawing up the consolidated financial statements as at 31 December 2017 and illustrated in the Annual Report under note 3.1 “Accounting standards and basis of consolidation”, except as regards the compulsory application from 1 January 2018 of the standards IFRS 9 “Financial instruments” and IFRS 15 “Revenues from Contracts with Customers”. Also note that the Company has opted for early adoption of IFRS 16 “Leases” in accordance with the provisions of paragraph C1 of the standard. Detailed descriptions of these newly adopted standards are provided below.

In the first half of 2018 there were no transfers between fair value hierarchical levels in reference to existing financial instruments.

IFRS 15 Revenues from Contracts with Customers

IFRS 15 was issued in May 2014, amended in April 2016, and approved in September 2016. The standard introduces a new 5-step model applied to revenues deriving from contracts with customers:

1. Identification of the contract
2. Identification of performance obligations
3. Determining the price of the transaction
4. Distribution of the price of the transaction across the performance obligations
5. Recognition of revenues for each performance obligation

IFRS 15 sets out the recording of revenues for an amount that reflects the fee to which the entity considers itself entitled in the context of trade with the customer for the transfer of products or services. The new standard requires more evaluation elements and choices by the directors to define its policy for recognising revenues. The new model represents a change in basic standards in relation to the previous “transfer of risks and benefits” model which defined the practice developed around IAS 18 Revenue, which furthermore did not specifically deal with the granting of software use licences, and has replaced all the requirements present in the IFRS with regard to the recognition of revenues, including those of IAS 11 Construction Contracts, to which the TXT Group's policy referred mainly for the recognition of revenues from project services (the other standards and interpretations superseded but that do not apply to the TXT Group are: IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers for Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services).

The Group applied the new standard using the modified retrospective application method. This method consists of recording the cumulative effect of the initial application of the new standard on the initial shareholders’ equity at the start of the period, without showing the comparison again; the Group has chosen to apply the new standard retrospectively only to contracts that were not completed on the date of initial application. As extensively discussed in other sections of the financial statements, the TXT Group operates in the supply of software products and strategic solutions. In the light of the analyses carried out, the main points of interest are listed below.

(a) Revenues from software licences

With reference to the recognition of revenues deriving from the granting of software licences (regardless of whether they are for an indefinite or fixed period), IFRS 15 establishes that in general the recognition may occur at “a certain moment” when there are no residual commitments or obligations or expectations on the customer’s part that the entity will make changes or carry out subsequent interventions or “over time” if the entity continues to be involved and carries out significant subsequent activities that could affect the intellectual property on which the customer is claiming rights.

(i) Revenues from licence and maintenance contracts

The Group has analysed whether maintenance services, which include an obligation to provide the customer with the right to updates and evolutions of the licence in addition to support activities, could be classified as a performance obligation distinct and separable from the granting of the right to the licences (granted for an indefinite period). This analysis was conducted both in the abstract and in the context of the contract and was corroborated by evaluating the commercial practices of the Group's business model. As, apart from marginal exceptions, licence rights and maintenance contracts are purchased together by the customer in the expectation of a certain degree of involvement, including subsequently, with reference to the licence itself and these subsequent maintenance activities cannot be carried out by entities other than the Group, being proprietary licences, the Group considers that the licence and the maintenance services have to be considered in application of IFRS 15 as the only contractual promise for which the overall fee is recognised along the period covered by the maintenance contract. The new model had an initial impact linked to the partial deferral of revenues from licences for which, on the date of transition, there were existing maintenance contracts. For the sake of full disclosure, in order to provide useful indications for the purpose of assessing the significance of the phenomenon, quantitative data deriving from the first-time application of IFRS 15 is indicated below.

(ii) Revenues from subscription contracts

Subscription contracts grant the customer the right to exploit the Group's software licences (which can be installed on the customer’s server or provided in a cloud) for a predetermined period with payment of a periodic fee. Software update and support activities carried out periodically can influence the intellectual property that is the subject of the licence and expose the customer to the results of these activities. For this line of revenue, previously already recognised “over time” along the contractual period, the transition to IFRS 15 has not had any impact.

(b) Provision of services for projects

The Group previously recognised revenues from the provision of services for technological solutions projects on the basis of the projects’ progress status. In accordance with IFRS 15, in order for the revenue to be recognised “over time” one of the following criteria must be satisfied:

- the customer simultaneously receives and uses benefits deriving from the service as and when provided by the entity;
- the entity's service creates or improves the activity (for example work in progress) that the customer controls as and when the activity is created or improved or
- the entity’s service does not create an activity that presents an alternative use for the entity and the entity has the enforceable right to payment for the completed service until the date considered.

The Group has assessed compliance with this provision as well as the consistency of the previous accounting model with the means of measuring project progress as permitted by IFRS 15. Projects are not usually multi-year and the payment conditions do not present significant financial components. Consequently there was no significant impact on profits and the composition of shareholders’ equity with reference to the recognition of revenues from services for projects.

(c) Other aspects

(i) Principal vs agent considerations

The Group has not identified, in the commercial relationships currently in existence, situations in which the fee is definitively charged to distributors or retailers only once the product is provided to the end user. Otherwise, for the purposes of IFRS 15, definitive recognition of the fee only once the product is provided to the end user would have resulted in deferring recognition of the revenues until that moment.

(ii) Incremental costs

In accordance with IFRS 15 the entity must record under assets incremental costs for obtaining the contract with the customer, if it envisages recovering them. Incremental costs for obtaining the contract are costs that the entity incurs for obtaining the contract with the customer and that would not have been incurred if the contract had not been obtained (for example a sale commission). Costs for obtaining the contract that would have been incurred even if the contract had not been obtained must instead be recorded as expenditure at the moment at which they are incurred (unless they can be explicitly charged to the customer even if the contract is not obtained). For reasons of practical expedience, the entity can record incremental costs for obtaining the contract as expenditure at the moment at which they are incurred, if the amortisation period of the asset that the entity would otherwise have recorded does not exceed one year. In view of the above the TXT Group does not recognise commercial costs incurred under assets as they are considered mostly recurring in nature.

(d) Effects of first-time adoption

The summary table provided below illustrates the effects of first-time adoption of the new standard, with an indication of the balancing entry of the cumulative catch-up adjustment, recognised on the opening balances.

Financial statements item	Amount in Euro
Deferred income	1,912,219
Deferred tax assets	(541,490)
Retained earnings (accumulated losses)	(1,370,729)

For the sake of full disclosure, information is provided on the future distribution over time of revenues from contracts considered in the calculation of the initial adjustment to the opening balance (with separate indication of contracts signed in EURO and USD).

Revenue type	Change in accounting standard IFRS 15	2018 revenues IFRS 15	2019 revenues IFRS 15	2020 revenues IFRS 15
EURO licences	1,475,859.69	1,025,252.07	448,809.12	1,798.50
USD licences	528,343.75	528,343.75	0.00	0.00

IFRS 16 Leases

IFRS 16 was published in January 2016 (approved at the end of 2017) and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 defines the principles for the recording, measurement, presentation and disclosure of leases and requires lessees to account for all lease contracts, including those classified according to previous practices as operating leases (for example certain rentals and hires), in the financial statements on the basis of a single model substantially similar to that used to account for financial leases in accordance with IAS 17. On the start date of the lease contract, the lessee will record a liability in relation to the lease payments (i.e. lease liabilities) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. the right to use the asset). Lessees must account separately for interest expenses on lease liabilities and amortisation of the right to use the asset.

Lessees must also remeasure liabilities related to lease contracts should certain events occur (for example a change in the conditions of the lease contract, a change in future lease payments resulting from a change in an index or rate used to determine these payments). The lessee generally recognises the remeasured amount of the lease liability as an adjustment of the right to use the asset.

The standard establishes two exemptions for recording by lessees:

- lease contracts on low-value assets;
- short-term lease contracts (for example contracts expiring within 12 months or less).

The Group opted for early adoption of the standard from January 2018 using a modified retrospective approach.

On adoption, the Group took the following practical expedients into consideration:

- application of a single discounting rate on a portfolio of leases with reasonably similar characteristics;

- treatment of leases due to terminate within 12 months of the date of first-time adoption as "short-term leases" (in effect excluded from application of the IFRS 16 basic model);
- exclusion of any initial direct costs from measurement of a right of use asset as at the date of first-time adoption;
- confirmed significance of experience acquired, e.g. to determinate the duration of a lease containing extension or termination options.

The positions affected by the scope of application of IFRS 16 and which in principle had an appreciable effect are related to:

- lease contracts for the main office (Milan)
- lease contracts for the national (Turin) and foreign (PACE – Berlin) secondary offices
- portfolio of hire vehicles for the Company's staff

The following table summarises the effects of application of IFRS 16:

Registered office	Contractual years	Years remaining	Options
Milan	6	6	Early termination; Renewal
Turin	6	4.5	Renewal
Berlin	4	1	Renewal

Type	Historical cost	Accumulated depreciation	Amount payable
Increase in the period	3,381,710	0	3,381,710
Instalment reimbursement (payment)	0	0	(493,160)
Depreciation	0	(484,942)	0
Interest	0	0	8,146
	3,381,710	(484,942)	2,896,696

For the lease contract on the main office in Milan, the contractually envisaged duration was used, without taking into account the early termination or further renewal options which are considered unlikely. A similar approach was adopted for the lease contracts of other offices.

As regards vehicle lease contracts, these refer to medium/long-term rental agreements, usually for 4 years with monthly instalments paid in advance.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments. Recognition and measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the plan for accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted the new standard from the effective date (1 January 2018) and has opted not to restate the comparative data.
The Group has performed impact analysis on all aspects covered by IFRS 9. This analysis was based on the information currently available, including strategies for using financial instruments. The application details with reference to the main areas of procedural intervention governed by the standard are described below.

a) Classification and measurement of financial assets and liabilities

The Group does not foresee any significant impact on its balance sheet and shareholders' equity as a result of the application of IFRS 9 classification and measurement requirements. The Group does not at the moment have any financial liabilities designated at FVTPL as a result of adopting the fair value option. For completeness it is reported that the change in financial liabilities relating to the acquisition of PACE minority shares will continue to be recorded entirely in the income statement. With regard to financial assets the new principle establishes that the classification of assets depends on the characteristics of the financial flows relating to these assets and the business model used by the Group for managing them. The Group signed the following contracts during the year:

- 1 private multi strategy insurance contract for €30,000,000
- 1 multisegment life insurance contract for €20,000,000
- 1 unit of an open-end investment fund with an initial nominal value of €10,000,000
- 1 unit of an investment fund with an initial nominal value of €10,000,000.

In view of the characteristics of these instruments, the Group arranged their designation at FVTPL as at 30 June 2018. Furthermore, the Group does not have investments in the form of shareholdings that could fall within the scope of IFRS 9 or derivatives, embedded or otherwise. Trade receivables are held for the purposes of collection at the contractual due dates of the cash flows relating to them in capital share and interest, where applicable. The Group has analysed the characteristics of the contractual cash flows of these instruments and has concluded that they comply with the criteria for valuation at amortised cost in accordance with IFRS 9. Therefore, no reclassification of these financial instruments was necessary. Similar conclusions can be reached for the items relating to cash and cash equivalents.

b) Impairment

IFRS 9 requires the Group to record expected losses on receivables on all bonds in the portfolio, loans and trade receivables, with reference to either a period of 12 months or the entire contractual duration of the instrument (e.g. lifetime expected loss). The Group applies the simplified approach and therefore records the expected losses on all trade receivables on the basis of their residual contractual duration. The standard allows the adoption of matrices for calculating the provision that are capable of incorporating information from forecasts and not limited to historical evidence, as a practical expedient. The Group will however continue to analytically consider the specific features of the sector and of certain customers in its evaluations.

c) Hedge accounting

In the past, the Group has established transactions to hedge currency risk, mainly relating to transactions, by signing currency forward contracts. The Group in this case had not activated hedge accounting and consequently, on the basis of general IAS 39 rules for derivatives, had recorded all effects deriving from changes in their FV in the income statement. If the Group were to decide in future to establish hedge transactions using derivatives and to implement hedge accounting, it would have to adopt the IFRS 9 rules. Given that IFRS 9 does not change the general principle on the basis of which an entity accounts for effective hedge relations, in relation to the regulations in the previous IAS 39 the main changes concern: – the hedging efficacy test is solely prospective and can also be based on qualitative aspects, replacing the previous 80-125% test and focusing on the economic relationship between the hedging instrument and the hedged item – the possibility of designating only a risk component as a hedged item even for non-financial elements (provided that the risk component is separately identifiable and can be reliably estimated) – introduction of the "costs of hedging" concept – greater possibility of designating groups of items as a single hedged item, including stratifications and certain net positions. In the absence of hedge accounting, changes in the fair value of derivatives will continue to be recorded in the income statement.

d) Other adjustments

The Group's adoption of IFRS 9 did not entail any significant adjustment of other items in the financial statements recorded as at 1 January 2018.

4. Financial risk management

As for business risks, the main financial risks identified and monitored by the Group are as follows:

- Currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The financial risk management objectives and policies of the TXT e-solutions Group reflect those illustrated in the consolidated financial statements as at 31 December 2017, to which reference should be made.

5. Use of estimates

The preparation of the condensed consolidated half-yearly financial statements requires Management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, and liabilities, as well as disclosures relating to contingent assets and liabilities at the reporting date. Should said estimates and assumptions, based on the best currently available measure, differ from actual circumstances, they shall be revised accordingly in the period said circumstances changed.

In particular, estimates are used to recognise provisions for bad debts, depreciation and amortisation, taxes, and allocations to provisions. Estimates and assumptions are reviewed on an ongoing basis and any changes are recognised in profit or loss.

In addition, some measurement processes, in particular the most complex ones such as determining any impairment of non-current assets, are generally fully completed only when preparing the annual report, when all the information that may be necessary is available, except in cases in which there are indicators of impairment, which require an immediate measurement.

6. Balance sheet: Assets

6.1. Goodwill

Goodwill refers to the TXT Next Division, the cash generating unit (CGU) that includes the PACE acquisition finalised in April 2016. The item totals €5,369,231. The TXT Sense initiative launched in 2017 is still not classed as a separate CGU as it is still embryonic, with no revenues in 2017 and 2018.

A breakdown of the item as at 30 June 2018 and the comparison with 31 December 2017 are shown below:

Goodwill	Amount as at 30 June 2018	Amount as at 31 December 2017
PACE Acquisition	5,369,231	5,369,231
TOTAL GOODWILL	**5,369,231**	**5,369,231**

The goodwill of €5,369 thousand from the acquisition of Pace, which occurred in 2016, derives from the acquisition price of €9,097 thousand, net of the fair value of shareholders' equity on the acquisition date of €1,352 thousand, the valuation of "Customer Relationship" intangible assets with a finite useful life of €1,112 thousand, "Intellectual property of software" of €1,350 thousand and deferred tax assets and liabilities of €86 thousand.
The purchase price was determined by including the fixed price agreed in the contract and earn-outs linked to changes in variables such as revenues and EBITDA and by applying the corresponding multiples, and the other variable figures linked to PACE's greater available liquidity on the acquisition date with respect to the threshold indicated in the contract. Furthermore, for the purpose of drafting the Consolidated Financial Statements, the directors decided to classify the signing of the put/call option contract with PACE's minority shareholders as the acquisition of a present ownership interest in the residual 21% of PACE capital and consequently to designate the liabilities for exercising this option at fair value on the initial recognition date (obtained by means of maturity estimate based on forecast data and the updating of this estimate to take account of the time factor). These price components are to be considered definitively determined, except for variations in the valuation of financial liabilities for exercising the option on PACE minority shares (these variations, linked to the updating component, have impacted the income statement). Likewise, the above-mentioned allocation is also to be considered definitively determined as, at the end of the measurement period set out in paragraph 45 of IFRS 3, no significant changes have been identified in the estimation conditions used for preparing the financial statements as at 31 December 2017.

The Group tests goodwill for impairment annually (as at 31 December) and when there is any indication that it may be impaired. The impairment test for goodwill and intangible assets with an indefinite useful life is based on the value-in-use calculation. The variables used to determine the recoverable amount of the various cash generating units (CGUs) were illustrated in the consolidated financial statements as at 31 December 2017, to which reference should be made for the relative details.

In reviewing its impairment indicators, the Group takes into consideration, among other factors, the ratio between its market capitalisation and its equity. As at 30 June 2018, the Group's market capitalisation was not lower than equity.

No recoverability test was conducted as at 30 June 2018, since there was no indicator of impairment such as to highlight significant risks

with regard to the possible existence of impairment for the reported goodwill.

6.2. Intangible assets with a finite useful life

Net of amortisation, intangible assets with a finite useful life amounted to €1,781,333 as at 30 June 2018. The changes during the period are reported below:

Intangible assets	Software licences	Intellectual Property	Customer Relationship	TOTAL
Balances as at 31 December 2017	**115,950**	**1,012,502**	**834,002**	**1,962,454**
Acquisitions	18,881	-	-	18,881
Amortisation	(24,143)	(96,429)	(79,429)	(200,001)
Balances as at 30 June 2018	**110,687**	**916,073**	**754,573**	**1,781,333**

The breakdown of the item is as follows:

- Software licences: these included software licences acquired mainly by the Parent Company for operating in-house instruments. Investments in the period of €18,881 referred to the purchase of software licences.
- Intellectual Property and Customer Relationship: these intangible assets were acquired as part of the PACE Group acquisition. The directors allocated the value of these assets with the help of an independent expert, based on the fair value at the end of the period as per the accounting principles, for final allocation of the values in a business combination. Intellectual Property represents the IP rights on software developed and owned by PACE; the PACE Group companies' Customer Relationship was also considered in the allocation of the higher price paid. Both types of assets are amortised on a straight-line basis over their useful life.

The negative change compared to the end of the previous year (€181,121) was attributable to amortisation for the period (€200,001), net of the software licence purchases described above (€18,881).

6.3. Property, plant and equipment

Property, plant, and equipment as at 30 June 2018 amounted to €3,656,724, net of depreciation, rising €2,863,280 mainly due to application of the new accounting standard IFRS 16. The changes during the period are reported below:

Property, plant and equipment	Electronic machinery	Furniture and fixtures	Buildings (lease)	Electronic machinery (lease)	Vehicles (lease)	Other property, plant and equipment	TOTAL
Balances as at 31 December 2017	**726,378**	**39,444**	**0**	**0**	**0**	**27,622**	**793,444**
Acquisitions	147,518	6,161	2,327,224	67,324	987,213	0	3,535,441
Disposals	(815)	0	0	0	0	0	(815)
Depreciation	(156,056)	(3,787)	(300,114)	(9,720)	(175,109)	(26,560)	(671,345)
Balances as at 30 June 2018	**717,025**	**41,818**	**2,027,110**	**57,604**	**812,105**	**1,062**	**3,656,724**

Investments in the "electronic machinery" category mainly refer to the purchase of computer systems and hardware to bolster productive capacity.

The increases in the leased buildings category are mainly attributable to the registered office of the Parent Company, which is finalising renewal of the lease contract on the registered office for 6 years, renewable for a further 6.

The increases in the leased vehicles category refer to TXT e-solutions S.p.A.'s vehicle fleet for a total net of depreciation of €643,630, with €168,475 relating to the German subsidiary PACE GmbH.

6.4. Sundry receivables and other non-current assets

Sundry receivables and other non-current assets amounted to €73,766 as at 30 June 2018, compared with €75,173 as at 31 December 2017. The item included security deposits paid by the Group companies as part of their operations and relating to motor vehicle rentals and bids in public tenders.

6.5. Deferred tax assets / liabilities

The breakdown of deferred tax assets and liabilities as at 30 June 2018, compared to the figures as at the end of 2017, is shown below:

	Balances as at 30 June 2018	Balances as at 31 December 2017	Change
Deferred tax assets	1,203,501	659,656	543,845
Deferred tax provision	(460,102)	(503,014)	42,912
Total	**743,399**	**156,642**	**586,757**

The increase in deferred tax assets compared to the previous year is partly attributable to the new accounting standard IFRS 15, with a net effect of €340,631 (recognised in shareholders' equity on opening balances for €546,190 and used for €205,559), and partly to the recognition of deferred tax assets on prior tax losses for €203,214.

Deferred tax assets mainly refer to the recognition of prepaid taxes on previous tax losses, the temporary differences (deductible in future years) of which, based on company plans, recovery in the next few years is deemed to be reasonably certain.

The decision to recognise deferred tax assets for previous tax losses was made taking into account the applicable legislation, in particular with regard to the use of each tax period's losses without limitation in time and considering the Group's positive outlook, together with the positive results recorded in recent years.

The recognition of deferred tax assets on the previous losses was based on company plans that consider future profitability and within the limits of the capacity to absorb previous losses in the next three years.

The deferred tax provision referred to the recognition of deferred tax for the assets acquired during 2016 as part of the PACE business combination (Customer List and Intellectual Property) and to the mismatch between tax value and carrying amount of certain goodwill amounts that arose following previous acquisitions.

6.6. Period-end inventories

Period-end inventories amounted to €3,178,329 as at 30 June 2018, up €650,413 compared with the end of 2017.

The table below reports the breakdown of inventories of work-in-progress among the Group companies:

Company	30 June 2018	31 December 2017	Change
TXT SPA	3,005,200	2,459,524	545,676
Pace GmbH	173,129	68,393	104,737
TOTAL	**3,178,329**	**2,527,917**	**650,413**

The increase in inventories can be attributed to the longer billing periods for the services rendered to customers compared with the end of the previous year.

6.7. Trade receivables

Trade receivables as at 30 June 2018, net of the provision for bad debts, amounted to €9,736,292, down €4,944,521 compared with the end of 2017. The item is detailed in the table below:

Trade receivables	30 June 2018	31 December 2017	Change
Gross value	10,115,116	15,059,636	(4,944,521)
Provision for bad debts	(378,824)	(378,824)	-
Net value	**9,736,292**	**14,680,812**	**(4,944,521)**

The breakdown of trade receivables into coming due and past due as at 30 June 2018, compared to 31 December 2017, is shown below:

Due date	Total	Coming due	Past due	
			0-90 days	More than 90 days
30 June 2018	**9,736,291**	5,627,358	3,034,844	1,074,090
31 December 2017	**14,680,812**	9,782,448	3,609,418	1,288,947

The decrease in trade receivables is due to the different payment times compared to the end of the prior year, when substantial payments were received after 31 December 2017 from a major customer of TXT e-solutions S.p.A.

Considering the breakdown of the receivables portfolio based on maturity and the absence of changes to the receivables already written down, no changes to the provision for bad debts were deemed necessary.

6.8. Sundry receivables and other current assets

The item “Sundry receivables and other current assets”, which included receivables for funded research, tax and other receivables, as well as accrued income and prepaid expenses, amounted to €2,663,902 as at 30 June 2018, compared to €5,690,021 as at 31 December 2017. The breakdown is shown below:

Sundry receivables and other current assets	30 June 2018	31 December 2017	Change
Receivables due from EU	639,731	659,064	(19,333)
Tax receivables	1,192,576	1,030,307	162,270
Other receivables	93,319	3,368,122	(3,274,803)
Accrued income and prepaid expenses	738,276	632,529	105,747
Total	**2,663,902**	**5,690,021**	**(3,026,119)**

Accrued income and prepaid expenses, amounting to €738,276, consist of reversals of prepaid expenses that did not relate to the half-year. The increase over the prior year is mainly due to a new project with a major US customer of the subsidiary PACE.

Tax receivables, amounting to €1,192,576, represent the receivables due from the Tax Authorities for withholding taxes paid on self-employment and employment income, bank interest income and tax credits for post-employment benefits. In addition, on 14 May 2018 the Parent Company concluded and signed a Patent Box ruling agreement with the Tax Authorities. Consequently, it recognised the tax credit deriving from the calculation for 2015 to 2017, totalling €177,056, to be used in the next tax return.

The item "Receivables due from EU" includes amounts accrued based on the progress of funded research projects. These regard grants awarded to the Parent Company to support the research and development activities subject to specific grant competitions; such grants will be disbursed upon completion of the development stages for the projects concerned.

Other receivables totalled €93,319, down by €3.3 million due mainly to the collection of €3.2 million in February deriving from the net working capital transferred with the Retail Division. As at 30 June 2018, the item mainly referred to VAT credits and receivables due from employees.

6.9. Financial instruments at fair value

As at 30 June 2018, the item included financial instruments designated at fair value for €69.6 million (the amount includes a negative change in fair value of €0.4 million from the date of subscription).

The financial instruments include:

a) investments in partial return multisegment insurance funds (€49.9 million)

b) bond and absolute return funds with a medium-low risk profile (€19.7 million).

The fair value hierarchy for insurance instruments, hybrid or otherwise, was classified as level 3, whilst for the second category it qualifies as level 1.

The figure reported by the issuer was adopted as confirmation of the fair value, where possible (level 1 instruments) comparing this with the market values.

6.10. Cash and cash equivalents

The Group's cash and cash equivalents amount to €9,103,268, down by €77,424,202 compared to 31 December 2017 mainly as a consequence of investing activities carried out by the Group during the first half of the year (as described above) and of the dividend payment totalling €11.7 million. Please refer to the statement of cash flows for details about cash flow generation.

Cash and cash equivalents refer to ordinary current accounts held with Italian banks, amounting to €7,555,712, as well as with foreign banks for €1,548,293.

Cash and cash equivalents are not subject to any constraints, and there are no monetary or other types of restrictions on their transferability in Italy.

7. Balance sheet: Liabilities and Shareholders' Equity

7.1. Shareholders' Equity

The company's share capital as at 30 June 2018 consisted of 13,006,250 ordinary shares with a par value of €0.5, totalling €6,503,125.

The reserves and retained earnings include the legal reserve (€1,300,625), the share premium reserve (€10,944,852), the merger surplus reserve (€1,911,444), the reserves for actuarial differences on post-employment benefits (negative to the tune of €915,122), the translation reserve (€9,558) and the reserves for retained earnings (€65,306,375).

Following the Shareholders' Meeting decision of 19 April 2018, the stock option reserves and the first-time adoption reserve were incorporated into the retained earnings reserves.

Change in accounting standards

On first-time adoption of IFRS 15, the Group used the modified retrospective method to apply the new standard. This method consists in recognising the cumulative effect of initial application of the new standard to the opening shareholders' equity, without any restatement of the comparative data. The total of this effect was €1,370,729, net of deferred tax assets recognised for €546,190.

Treasury shares

At 29 June 2018, 1,363,651 treasury shares were held (1,268,321 as at 31 December 2017), equal to 10.4845% of shares outstanding, recorded at a value of €3,824,951 (€2,411,887 as at 31 December 2017), for a total par value of €681,825 (€634,160 as at 31 December 2017) and a market value of €14,400,155. The TXT share price as at 30 June 2018 was €10.56 (a listed price of €9.63 as at 31 December 2017 with a market value of €12,213,931). Shares outstanding (issued) as at 30 June 2018 numbered 13,006,250 (11,642,599 outstanding).

The purchase of treasury shares was authorised again by the Shareholders' Meeting of 19 April 2018. The plan provides for a maximum number of shares so as not to exceed the legal maximum number at the maximum price not exceeding the average of the official stock market prices in the three sessions prior to the purchase transaction, plus 10%, and in any case not more than €25.00.

In order to maintain the necessary operational flexibility over a suitable time horizon, and considering that the purchase authorisation expires on 21 October 2018, the Shareholders' Meeting renewed the authorisation to purchase and dispose of treasury shares, also through subsidiaries, for an additional 18 months, simultaneously revoking the analogous authorisation of 21 April 2017 for the portion not yet executed.

In the first half of 2018, 135,568 treasury shares were purchased at an average price of €10.42 per share, for a total of €1,412,619.

7.2. Non-current financial liabilities

The item "non-current financial liabilities" amounted to €3,991,831 (€1,688,023 as at 31 December 2017).

This item includes:

- valuation of the amount payable for the PACE acquisition at €1,679,643, as an estimate of the additional outlay for exercising the put/call option in the period 2020-2021 to purchase the remaining 21% of the company's shares;

- valuation of the residual debt due beyond 12 months, for €2,312,188, payable to the Lessors and corresponding with the lease instalments not yet due, discounted as envisaged for the application of IFRS 16.

Below is the table required by IAS 7 on changes in liabilities linked to financing activities.

	31 December 2017	Acquisitions	Cash flows	Other	30 June 2018
Debt for PUT/CALL option	1,667,523	0	0	12,120	1,679,643
Other financial payables	20,500	2,312,188	0	(20,500)	2,312,188
Total liabilities deriving from financing activities	**1,688,023**	**2,312,188**	**0**	**(8,380)**	**3,991,831**

	31 December 2016	Decision on distribution of dividends	Cash flows	Other	31 December 2017
Debt for PUT/CALL option	1,391,140	0	252,143	24,240	1,667,523
Other financial payables	0	0	20,500		20,500
Total liabilities deriving from financing activities	**1,391,140**	**0**	**272,643**	**24,240**	**1,688,023**

The increase in other financial payables in the first half of the year refers mainly to application of the new standard IFRS 16.

The amount of the PUT/CALL option payable referred to the residual liability associated with the 2016 acquisition of the PACE Group. This liability predominantly comprises the estimated outlay to acquire the residual minority stake through exercising of the put/call option in 2020-2021 (to purchase the remaining 21% of the company's shares). As described in greater detail in the consolidated financial statements for the year ended 31 December 2017, recognition of this liability follows identification by the directors of the existence of a present ownership interest of the TXT Group with regard to the minority interests.

7.3. Employee benefits expense

The item "Employee benefits expense" as at 30 June 2018 amounted to €2,628,825, of which €1,485,358 relating to obligations to employees of the Parent Company for defined-benefit plans.

The breakdown of and changes in this item over the first half are presented below:

Employee benefits expense	31 December 2017	Provisions	Uses/Payments	Actuarial gains/losses and other	Financial income/charges	30 June 2018
Post-employment benefits	1,485,059	504,673	(509,440)	1,278	3,788	1,485,358
Provision for severance for end of term of office	1,104,717	38,750	0	0	0	1,143,467
Total non-current provisions relating to employees	**2,589,776**	**543,423**	**(509,440)**	**1,278**	**3,788**	**2,628,825**

The significant use in the period (€509,440) was the result of payments to the INPS treasury fund and supplementary pension funds.

Below is the reconciliation of the provision for post-employment benefits based on Italian statutory regulations and the IAS/IFRS carrying amount:

	2018	2017
Provision for post-employment benefits	**1,367,734**	**1,353,715**
Current cost	(18,785)	(40,299)
Financial charges	3,788	21,714
Actuarial differences	1,278	(61,453)
Retained earnings	131,343	211,381
Total	**1,485,358**	**1,485,058**

To calculate the present value of post-employment benefits, the following assumptions regarding the future trends in the variables included in the algorithm have been used:

- The probability of death was estimated based on the census of the Italian population by age and gender taken in 2000 by ISTAT [Italy's National Institute for Statistics], reducing it by 25%.
- The probability of removal due to total and permanent disability of the employee, such as becoming disabled and leaving the company, was estimated based on disability tables currently used in the reinsurance sector, differentiated by age and gender.
- The retirement age of a generic worker was estimated assuming that the first retirement requirement for the purpose of obtaining the Mandatory General Insurance was satisfied and that the employees started paying into INPS [Italy's Social Security Institute] no later than 28 years of age. This measurement accounts for the changes to the retirement age introduced by the Monti reform in late 2011.
- As for the probability of termination of employment due to resignations and dismissals, as at the measurement date an annual 5% staff turnover rate was calculated.
- With regard to requests for advance payment of benefits, an annual 1.00% advance payment rate was estimated, with advance payments amounting to 70% of the post-employment benefits outstanding held with the company.

Change in wages and salaries had no impact on the actuarial valuation. The estimated inflation rate used for measurement purposes was 1.50% per year.

The discount rate used for measurement purposes was 0.5860% per year, i.e. the rate on Bonds issued by AA-rated European Companies as at 30 June 2018 with maturities of between 5 and 7 years. The average liability duration for the company is 6.07 years.

The table below shows the impact on post-employment benefits of the increase/decrease of certain “key” variables used for the actuarial calculation:

Sensitivity analysis as at 30 June 2018	**% Change in liabilities (DBO)**	
Type of change for the specific assumption	**Decrease**	**Increase**
Decrease or increase of 50% in company staff turnover	1.36%	-1.23%
Decrease or increase of 50% in frequency of advanced payments	0.18%	-0.18%
Decrease or increase of inflation by one percentage point	-3.84%	3.62%
Decrease or increase of 50% in the discount rate	1.49%	-1.45%

7.4. Current financial liabilities

The item “current financial liabilities” amounted to €663,607 (€674.861 as at 31 December 2017) and includes:

- The €584,507 payable to the Lessors due to the application of IFRS 16, relating to the amount due within 12 months;
- Short-term loans obtained by the branch PACE GmbH for €11,289;
- The payable of €67,811 for advances on research projects funded by the European Union

and received by PACE GmbH as lead manager, to be reimbursed to the project partners. As at 31 December 2017, the total was €588,309 and referred to the amount payable by TXT e-solutions S.p.A. to partners for a funded project for which it was lead manager and which was reimbursed in the first half of 2018.

7.5. Trade payables

Trade payables amounted to €704,685 as at 30 June 2018 and decreased by €636,623 compared to 31 December 2017. Payables due to suppliers are of a trade, non-interest bearing nature and are due within twelve months.

7.6. Tax payables

Tax payables totalled €794,084 as at 30 June 2018 and mainly refer to the Parent Company's IRAP (Regional Tax on Productive Activities) and IRES (Corporate Income Tax) payables.

7.7. Sundry payables and other current liabilities

Sundry payables and other current liabilities amounted to €10,631,613 as at 30 June 2018, compared to €11,046,750 as at 31 December 2017, as shown in the table below:

Sundry payables and other current liabilities	30 June 2018	31 December 2017	Change
Payables due to employees and external staff	3,230,763	3,534,308	(303,545)
Accrued expenses and deferred income	2,701,296	3,001,047	(299,778)
Advance payments from customers for professional services	2,096,372	1,803,164	293,209
Payables due to social security institutions	1,052,686	1,003,971	48,715
Other payables	1,550,522	1,704,259	(153,738)
Sundry payables and other current liabilities	**10,631,613**	**11,046,750**	**(415,137)**

The item “Accrued expenses and deferred income” essentially referred to adjustments to maintenance and service invoices made to recognise only revenues for the period. The net change of €0.3 million refers mainly to the combined effect of: (a) payment of the liabilities relating to disposal of the TXT Retail Division allocated in the previous year, (b) recognition of the deferred income on prior years’ revenues as a result of application of the new accounting standard IFRS 15, further details of which are provided in the section on adoption of this new standard.

The item “Payables due to employees and external staff” included payables for wages and salaries relating to June 2018 as well as payables due to employees for unused annual leave. The negative difference of €303,545 compared to the prior year is due to payment of the 2017 bonus to employees in April 2018.

“Other payables” mainly included the payables due to taxation authorities for withholding taxes on salaries of employees and external staff, VAT payables, and payables on cost accounting of ongoing projects and funded research projects.

The item “Advance payments from customers for professional services” included the advance payments received from customers against orders currently being processed.

The increase over the prior year shows performance during the year that is consistent with that of previous years.

8. Income Statement

8.1. Total revenues and other income

Consolidated revenues and other income for the first half of 2018 amounted to €19,005,646, up 6% compared with the first half of the previous year, as detailed below:

	30 June 2017	30 June 2018	Change	% change
Revenues and other income	19,005,646	17,919,000	1,086,646	6.06%
Total	**19,005,646**	**17,919,000**	**1,086,646**	**6.06%**

A breakdown of revenues into categories, that essentially reflect how their nature, total, distribution over time and any uncertainties affect the recognition of revenues and related cash flows, as well as the analysis of changes and performance compared to the first half of the previous year, is described in the Report on Operations to which reference should be made for further details.

8.2. Purchase of materials and external services

Purchases of materials and external services for the first half of 2018 amounted to €2,996,198, down compared to the first half of 2017, when they totalled €3,190,302.

The item is detailed below:

	30 June 2018	30 June 2017	Change
Consumables and resale items	128,147	122,974	5,173
Technical consulting	642,811	656,492	(13,681)
Travel expenses	798,632	820,565	(21,933)
Utilities	142,301	189,460	(47,159)
Media & marketing services	175,986	270,100	(94,114)
Canteen and ticket services	195,896	151,694	44,201
Administrative and legal services	567,932	636,659	(68,727)
Directors' fees	344,494	342,357	2,137
Total	**2,996,199**	**3,190,302**	**(194,103)**

The overall difference of €194,104 compared to the first half of 2017 is mainly attributable to the reduced costs for expenditure charged back to Aptos Retail Srl, the company arising from disposal of the Retail Division, for the sharing of general services on the premises in Via Frigia, Milan.

8.3. Personnel costs

Personnel costs for the first six months of 2018 amounted to €13,818,456, up by €1,342,337 (10.7%) compared with the first half of 2017.

This increase is mainly due to strengthening of the workforce, in line with the increase in revenues and the terms for contractual benefits introduced in Italy by the Jobs Act.

The employees of the TXT e-solutions Group, excluding directors and external consultants, numbered 492 as at 30 June 2018 (474 as at 30 June 2017), with an increase of 18 employees.

The table below shows the breakdown of employees by level:

	White-collar staff	Middle managers	Executives and managers	Total
30/06/2018	451	30	11	492
30/06/2017	436	27	11	474

8.4. Other operating costs

The item “other operating costs” in the first half of 2018 amounted to €122,373, down €351,579 from the corresponding period of 2017.

This item mainly included expenses for rents, car and other rentals, and sundry operating costs (including contingent liabilities and deductible taxes).

	30 June 2018	30 June 2017	Change
Rental expense for offices	0	65,327	(65,327)
Other expenses and extraordinary income adj.	(4,669)	(13,415)	8,745
Rental expense for motor vehicles	44,063	126,594	(82,531)
Other tax (other than income tax)	11,329	32,549	(21,220)
Other rental expense	24,435	4,876	19,559
Fines and penalties	25,807	74,144	(48,337)
Magazine and subscription expenses	21,407	61,504	(40,096)
Total	**122,373**	**351,579**	**(229,206)**

8.5. Depreciation, amortisation and impairment

Depreciation and amortisation amounted to €871,251 as at 30 June 2018, up €343,129 compared with the corresponding period of the prior year.

They have been calculated based on the useful life of the capitalised asset or cost and its use in production.

The increase is attributable to adoption of the new IFRS 16 standard.

8.6. Financial income and charges

As at 30 June 2018, the company recognised financial charges amounting to €287,147, compared with €152,757 in financial charges in the first half of 2017. The change is mainly due to the capital loss on HFT securities designated at fair value and to the change in managing exchange rate differences. The capital loss from changes in fair value of financial instruments totalled €416,912 in the half-year ending 30 June 2018.

8.7. Income taxes

Income taxes as at 30 June 2018 were equal to €40,281, detailed as follows:

	30 June 2018	30 June 2017	Change
Deferred taxes of previous years	(177,096)	-	177,096
Total current taxes	260,288	389,243	128,955
Total deferred tax assets/liabilities	(42,912)	(42,912)	-
Total taxes	**40,281**	**346,331**	**306,050**

The deferred tax assets and liabilities correspond to the change in the respective balance sheet items, except as previously specified in relation to recognition of the initial tax effect from the application of IFRS 15.

The negative amount of €177,096 refers to the tax receivable based on the Patent Box calculation for the years 2015 to 2017, to be used in the next tax return as a result of the ruling agreement signed with the Tax Authorities on 14 May 2018.

9. Seasonality of operating segments

The segments in which the TXT e-solutions Group operates are not subject to any seasonality as far as operations are concerned.

10. Transactions with related parties

Related parties are:

a) Entities that, directly or indirectly, even through subsidiaries, trustees or third parties:
   - have control over TXT e-solutions S.p.A.
   - are subsidiaries of TXT e-solutions S.p.A.
   - are subject to joint control with TXT e-solutions S.p.A.
   - have an interest in TXT e-solutions S.p.A. such as to exercise a significant influence.

b) Associates of TXT e-solutions S.p.A.

c) Joint ventures in which TXT e-solutions S.p.A. participates.

d) Managers with strategic responsibilities of TXT e-solutions S.p.A. or one of its parent companies.

e) Close family members of the parties as per the above points a) and d).

f) Entities controlled or jointly controlled or subject to significant influence by one of the parties as per points d) and e), or in which said parties hold, directly or indirectly, a significant interest, in any case at least 20% of the voting rights.

g) An occupational, collective or individual pension fund, either Italian or foreign, set up for TXT e-solutions S.p.A.'s employees or any other related entity.

The following tables show the overall amounts of the transactions carried out with related parties.

Trade transactions

Trade transactions with related parties of the Group exclusively refer to amounts paid to the directors and to key management personnel.

As at 30 June 2018	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,229,592	0	583,414	0
Total as at 30.06.2018	**0**	**1,229,592**	**0**	**583,414**	**0**

As at 31 December 2017	Receivables	Payables	Guarantees	Costs	Revenues
Directors and key management personnel	0	1,393,467	0	1,237,562	0
Total as at 31.12.2017	**0**	**1,393,467**	**0**	**1,237,562**	**0**

Financial transactions

As at 30 June 2018, there were no financial transactions with related parties of the Group considered as a whole.

11. Net financial position

Pursuant to Consob communication dated 28 July 2006 and in conformity with the CESR's recommendation dated 10 February 2005, “Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses”, it is noted that the TXT e-solutions Group's net financial position as at 30 June 2018 is as follows:

(€ thousand)	30.06.2018	31.12.2017	Change	30.06.2017
Cash and bank assets	9,103	86,527	(77,424)	7,356
HFT securities at fair value	69,583	0	69,583	0
Short-term financial receivables	0	3,156	(3,156)	0
Short-term financial payables	(664)	(675)	11	(221)
Short-term financial resources	**78,022**	**89,009**	**(10,986)**	**7,135**
Residual PUT/CALL payables on the PACE acquisition due beyond 12 months	(1,680)	(1,668)	(12)	(1,666)
Lease payables due beyond 12 months	(2,312)	0	(2,312)	0
Net Available Financial Resources	**74,031**	**87,341**	**(13,310)**	**5,469**

The decrease is mainly due to: (a) payment of dividends, (b) collection of financial receivables associated with disposal of the Retail Division, (c) purchase of treasury shares and (d) recognition of the lease payable pursuant to IFRS 16.

For additional information on changes in the Group’s Net Financial Position, see the Directors’ Report on Operations.

12. Subsequent events

On 31 July 2018, a contract was signed for the acquisition of Cheleo S.r.l. (www.cheleo.it), an Italian specialist in the design and development of products and services for lifecycle management of loans by banking and financial intermediaries.

The transaction will allow TXT to significantly expand its customers target and likewise its mix of new products, expertise and high value-added specialisations, strengthening its market presence.

In 2017, Cheleo achieved revenues of around €2.8 million with EBITDA of €0.95 million (34% of revenues). Both revenues and EBITDA are forecast to rise in 2018 (+25%). The Net Financial Position (NFP) as at 21 June 2018 was positive at €2.48 million.

The acquisition price for 100% of Cheleo was agreed between the parties as €10 million, including NFP, subject to closing adjustments as necessary. The Company will pay 60% of this amount from available funds and 40% from treasury shares held. An earn-out will also be recognised based on the EBITDA performance of Cheleo in 2019.

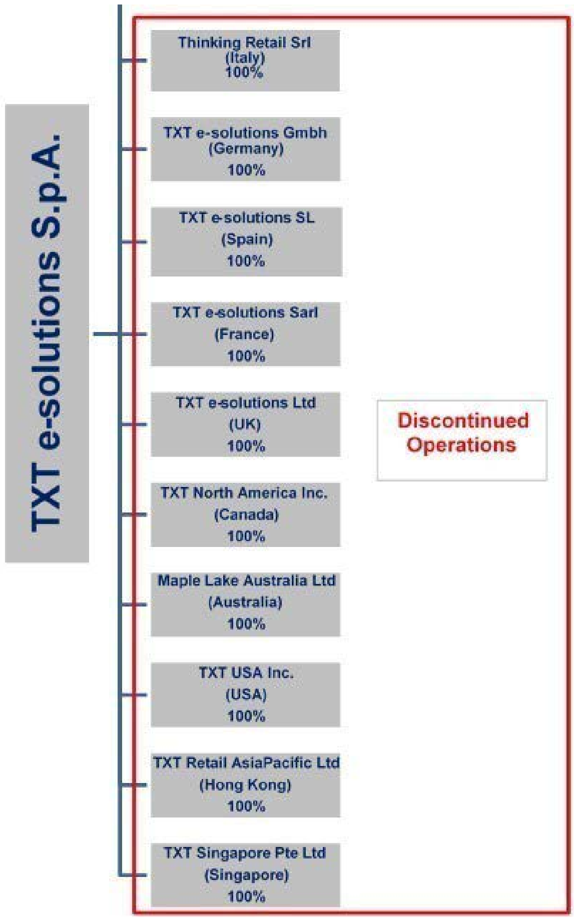
On closing, 51% of Cheleo was acquired and a put/call contract was signed with Laserline, Cheleo's majority shareholder, for the remaining 49% of the capital, to be exercised at the same terms in the period 1-31 January 2019. For further details, reference should be made to the Directors' Report on Operations.

13. Significant non-recurring events and transactions

As reported extensively in the Annual Report as at 31 December 2017, during 2017 the TXT Group disposed of the TXT Retail Division (the pre-disposal scope of activities is illustrated in the chart below).

This Chapter provides the analytical details of items under Discontinued Operations, comprising the subsidiaries indicated below which were sold during 2017.

From a methodological standpoint, with regard to the representation of Discontinued Operations envisaged by IFRS 5, these were included in the scope of consolidation of the TXT Group until 30 June 2017 and, therefore, the total balances for the entire Group for 2017 were determined by making the appropriate eliminations of economic and financial transactions between Continuing and Discontinued Operations.



	30.06.2017	Discontinued Operations	Continuing Operations
Revenues and other income	36,132,162	18,213,162	17,919,000
TOTAL REVENUES AND OTHER INCOME	**36,132,162**	**18,213,162**	**17,919,000**
Purchase of materials and external services	(6,769,492)	(3,579,190)	(3,190,302)
Personnel costs	(24,864,560)	(12,388,441)	(12,476,119)
Other operating costs	(1,242,680)	(891,101)	(351,579)
Depreciation and amortisation/Impairment	(684,854)	(341,725)	(343,129)
OPERATING PROFIT (LOSS)	**2,570,576**	**1,012,705**	**1,557,871**
Financial income (charges)	(308,030)	(155,283)	(152,747)
EARNINGS BEFORE TAXES	**2,262,546**	**857,422**	**1,405,124**
Income taxes	(695,211)	(263,056)	(432,155)
NET PROFIT (LOSS) FOR THE PERIOD	**1,567,335**	**594,366**	**972,969**
Net profit from Discontinued Operations	-	-	594,365
NET PROFIT (LOSS) FOR THE PERIOD (Group)	**1,567,335**	**594,366**	**1,567,334**

14. Certification of the condensed consolidated half-yearly financial statements

pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

The undersigned Alvise Braga Illa as Chairman of the Board of Directors and Paolo Matarazzo as Manager responsible for preparing corporate accounting documents for TXT e-solutions S.p.A. certify, also pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 dated 24 February 1998:

- the adequacy, in relation to the company's characteristics, and
- the effective application of the administrative and accounting procedures for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2018.

The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2018 is based on a process defined by TXT in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission which represents a reference framework that is generally accepted at an international level.

We also certify that the condensed consolidated half-yearly financial statements as at 30 June 2018:

- correspond to the accounting books and records;
- are prepared in compliance with the International Financial Reporting Standards endorsed by the European Union as well as with the implementing measures for Article 9 of Legislative Decree no. 38/2005;
- are suitable to provide a true and fair view of the financial position, performance and cash flows of the issuer.

The half-yearly Report on Operations includes a reliable analysis of the important events that occurred in the first six months of the year and how they affected the condensed half-yearly financial statements, as well as a description of the main risks and uncertainties for the remaining six months. The half-yearly Report on Operations also includes a reliable analysis of the information on significant transactions with related parties.

Manager responsible for preparing corporate accounting documents	Chairman of the Board of Directors
Paolo Matarazzo	Alvise Braga Illa

Milan, 2 August 2018